

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Swartz Creek	County Genesee
Fiscal Year End June 30, 2007	Opinion Date November 30, 2007	Date Audit Report Submitted to State December 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

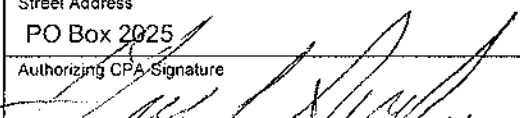
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580	
Street Address PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Gerald J. Desloover, CPA	License Number 1101007126	



Financial Statements
For The Fiscal Year Ended
June 30, 2007



REHMANN ROBSON

Certified Public Accountants

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Saginaw, MI 48638
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CITY OF SWARTZ CREEK

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
List of Elected and Appointed Officials	1

FINANCIAL SECTION

Independent Auditors' Report.....	2-3
Management's Discussion and Analysis	4-9

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets	10
Statement of Activities.....	11-12

Fund Financial Statements:

Balance Sheet – Governmental Funds	13
Reconciliation of Fund Balance as Reported in the Governmental Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Major Streets Fund.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Local Streets Fund	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Garbage Collection Fund	20
Statement of Net Assets – Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds.....	22
Statement of Cash Flows – Proprietary Funds.....	23-24
Statement of Assets and Liabilities – Fiduciary Funds.....	25
Combining Statement of Net Assets – Discretely Presented Component Units.....	26
Combining Statement of Activities – Discretely Presented Component Units	27-28

Notes to Basic Financial Statements	29-50
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CITY OF SWARTZ CREEK

TABLE OF CONTENTS

SUPPLEMENTARY INFORMATION

Combining Statements:

Combining Balance Sheet – Nonmajor Governmental Funds	51
Combining Statement of Revenues, Expenditures and Changes in Fund balances – Nonmajor Governmental Funds.....	52
Combining Statement of Assets and Liabilities – Agency Funds	53
Statement of Net Assets and Governmental Fund Balance Sheet – Downtown Development Authority Component Unit.....	54
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance - Downtown Development Authority Component Unit	55

Internal Control and Compliance

Independent Auditors' Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	56-59
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INTRODUCTORY SECTION

CITY OF SWARTZ CREEK

LIST OF ELECTED AND APPOINTED OFFICIALS

City Council

Richard Abrams
Jason Christie
Donald Adams
C. David Hurt
Rae Lynn Hicks
Curtis Porath
Michael Shumaker

Mayor
Mayor Pro-Tem
Councilperson
Councilperson
Councilperson
Councilperson
Councilperson

Other Officers and Officials

Paul Bueche
Adam Zettel
Mary Jo Clark
Tom Svrcek
Rick Clolinger
Tom O'Brien
Deanna Korth
Juanita Aguilar

City Manager
Assistant City Manager
Finance Director
Director of Public Services
Police Chief
Zoning Administrator
Treasurer
Clerk

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

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An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

November 30, 2007

Honorable Mayor and Members
of the City Council
City of Swartz Creek
Swartz Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *City of Swartz Creek*, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Swartz Creek Area Senior Citizen's, Inc., which represent 90 percent, 108 percent and 94 percent, respectively, of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Swartz Creek Area Senior Citizen's, Inc., is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *City of Swartz Creek*, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General, Major

Streets, Local Streets and Garbage Collection Governmental Funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 4-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *City of Swartz Creek's* basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

City of Swartz Creek Management's Discussion and Analysis

Our discussion and analysis of the City of Swartz Creek's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- State-shared revenue, our second largest revenue source, was reduced again by the State of Michigan by approximately \$3,600 this year. The City expected this and reduced budgeted appropriations and watched actual revenues and expenses very closely, which should have resulted in a fund balance increase of \$149,143 in General Fund. The City was appraised of an opportunity to purchase a house on a large lot within the downtown area. Since this purchase would assist the City in its efforts to revitalize the downtown area, City Council approved the purchase at a cost of \$ 124,630 (to be transferred to the Capital Projects Fund), which resulted in an increase to fund balance of \$ 24,513 in the General Fund.
- Total net assets related to the City's governmental activities increased by approximately \$443 thousand. However, the unrestricted portion of net assets decreased by approximately \$13 thousand.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Swartz Creek as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City of Swartz Creek's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City of Swartz Creek as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current assets	\$3,436,059	\$3,675,800	\$3,792,135	\$3,535,998	\$7,228,194	\$7,211,798
Noncurrent assets:						
Restricted assets						
Capital assets	<u>5,334,322</u>	<u>3,897,004</u>	<u>4,413,077</u>	<u>4,456,517</u>	<u>9,747,399</u>	<u>8,353,521</u>
Total assets	<u>8,770,381</u>	<u>7,572,804</u>	<u>8,205,212</u>	<u>7,992,515</u>	<u>16,975,593</u>	<u>15,565,319</u>
Current liabilities	143,135	134,408	160,908	172,462	304,043	306,870
Long-term liabilities	<u>1,739,816</u>	<u>994,357</u>	<u>-</u>	<u>-</u>	<u>1,739,816</u>	<u>994,357</u>
Total liabilities	<u>1,882,951</u>	<u>1,128,765</u>	<u>160,908</u>	<u>172,462</u>	<u>2,043,859</u>	<u>1,301,227</u>
Net assets:						
Invested in capital assets -						
Net of related debt	3,692,295	2,971,841	4,413,077	4,456,517	8,875,096	7,428,358
Restricted	<u>1,799,679</u>	<u>2,063,507</u>	<u>-</u>	<u>-</u>	<u>1,799,679</u>	<u>2,063,507</u>
Unrestricted	<u>1,395,456</u>	<u>1,408,691</u>	<u>3,631,227</u>	<u>3,363,536</u>	<u>4,256,959</u>	<u>4,772,227</u>
Total net assets	<u>\$6,887,430</u>	<u>\$6,444,039</u>	<u>\$8,044,304</u>	<u>\$7,820,053</u>	<u>\$14,931,734</u>	<u>\$14,264,092</u>

The City of Swartz Creek's combined net assets increased 4.7 percent from a year ago - increasing from \$14.2 million to \$14.9 million. In contrast, last year's net assets increased by only 3.9 percent. As we look at the governmental activities separately from the business-type activities, we can see that governmental net assets increased by 6.9% while business-type net assets increased by 2.9%.

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) decreased by \$13 thousand for the governmental activities. This represents a decrease of approximately .94 percent or less than 1 percent. The current level of unrestricted net assets for our governmental activities stands at \$ 1.4 million, or about 49 percent of expenditures.

The following table shows the changes in net assets as of June 30, 2007, compared to the prior year:

Summary Condensed Income Statement:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$418,579	\$355,369	\$1,854,479	\$2,001,599	\$2,273,058	\$2,356,968
Operating grants and contributions	361,330	363,662	-	-	361,330	363,662
Capital grants and contributions	59,137	-	-	-	59,137	-
General revenue:						
Property taxes	1,481,990	1,396,619	-	-	1,481,990	1,396,619
State-shared revenue	452,394	466,617	-	-	452,394	466,617
Interest	219,772	150,027	158,377	103,313	378,149	253,340
Cable fees and other	216,159	229,183	-	35,500	216,159	264,683
Total revenue	<u>3,209,361</u>	<u>2,961,477</u>	<u>2,012,856</u>	<u>2,140,412</u>	<u>5,222,217</u>	<u>5,101,889</u>
Program Expenses						
Legislative	34,396	29,087	-	-	34,396	29,087
General government	699,813	497,286	-	-	699,813	497,286
Public safety	1,212,318	1,188,892	-	-	1,212,318	1,188,892
Public works	597,193	632,372	-	-	597,193	632,372
Recreation and cultural	253,270	286,841	-	-	253,270	286,841
Interest on long-term debt	47,911	50,126	-	-	47,911	50,126
Sewer	-	-	755,239	761,344	755,239	761,344
Water	-	-	954,435	966,104	954,435	966,104
Total program expenses	<u>2,844,901</u>	<u>2,684,604</u>	<u>1,709,674</u>	<u>1,727,448</u>	<u>4,554,575</u>	<u>4,412,052</u>
General Expenses						
Transfers In (Out)	78,931	35,784	(78,931)	(35,784)	-	-
Change in Net Assets	<u>443,391</u>	<u>312,657</u>	<u>224,251</u>	<u>377,180</u>	<u>667,642</u>	<u>689,837</u>
Net Assets - Beginning of year (Restated)	<u>6,444,039</u>	<u>6,131,382</u>	<u>7,820,053</u>	<u>7,442,873</u>	<u>14,264,092</u>	<u>13,574,255</u>
Net Assets - End of year	<u>\$6,887,430</u>	<u>\$6,444,039</u>	<u>\$8,044,304</u>	<u>\$7,820,053</u>	<u>\$14,931,734</u>	<u>\$14,264,092</u>

Governmental Activities

The City of Swartz Creek's total governmental revenues have increased by approximately \$247 thousand. This was due to the City investing more of its idle monies, obtaining more grants for restricted uses and the taking a more intense stand on the collection of outstanding receivables. This increase, which represents 8.6 percent of revenue, offset the decrease in state-shared revenue.

Expenses increased by about \$160 thousand during the year. These increases were primarily increases in health care costs, contractual wages and prices of supplies and repairs due to rising gasoline prices. To offset this, the City closely monitored its spending in all areas, including seasonal hiring and held off starting any new road projects without grants.

Business-type Activities

The City of Swartz Creek's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Genesee County Water System. We provide sewage treatment through a sewage treatment plant operated by Genesee County Water and Waste. In 2005, the City raised the sewer rates for the first time in 10 years after absorbing any rate increases from Genesee County. Water rates were raised by the City in November 2003 for the second time in 10 years. These combined two factors resulted in an operating income for fiscal 2005, compared to operating losses in each of the previous five years. Profits increased in 2006 by \$185 thousand and in 2007 by \$144.8 thousand. The 2007 profits were offset by errors in billing which were found and corrected after fiscal year-end and by capital outlay costs for the City's share of the Western Trunk Sewer Extension.

The City of Swartz Creek Funds

The fund financial statements provide detail information about the most significant funds, not the City of Swartz Creek as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, the Major and Local Street Funds, the Garbage Collection Fund and others.

The General Fund pays for most of the City of Swartz Creek's governmental services. The most significant are police and city offices, which incurred expenses of approximately \$ 1.76 million in 2007.

General Fund Budgetary Highlights

Over the course of the year, the City of Swartz Creek amended the budget to take into account events during the year. The most significant change was to increase the appropriation for purchasing a house with land by \$124,630. Since it is the City's policy to budget revenues shy of expected revenues, the actual revenues exceeded budgeted revenues by \$177.6 thousand. The City's departments overall stayed below budget, resulting in total expenditures \$54,925 below budget. Since a use of \$208 thousand of existing fund balance was budgeted by the amended

budget, the increase in actual revenues and the decrease in actual expenditures allowed the General Fund's fund balance to increase by \$25,000 from \$ 1.049 million a year ago to \$1.074 million at June 30, 2007.

Capital Asset and Debt Administration

At the end of 2007, the City of Swartz Creek had \$ 9.14 million invested in a broad range of capital assets, including buildings, police and fire equipment, roads and water and sewer lines. At this time the only long term debt service the City has is Building Authority Bonds for the construction of City Hall (Finished in 2001) and the City's portion of Water Supply System Bonds (Debt to expire in 2008) and the City's portion of Sanitary Sewer Western Trunk Expansion (Finished in 2007).

Economic Factors and Next Year's Budgets and Rates

The City of Swartz Creek's budget for next year calls for a watchful eye on the State's budget cuts. If any further cuts are made in State Revenue Sharing or in ACT 51 monies, the City may have to consider cutting services. These revenues have become even more important because of the current economy in Michigan and the impact of Proposal A; therefore, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Swartz Creek will grow less than by inflation, before considering new property additions and the uncapping of property sales. On the same subject, the amounts of unpaid property taxes are rising. Although, at present, the Genesee County purchases our delinquent real property taxes, they do not purchase our delinquent personal property taxes. Therefore, the City is becoming more vigilant in collecting these delinquencies even when actual collection looks bleak.

If Genesee County raises the water or sewer rates to the City, the City will be forced to pass the increases along to its customers. The maintenance on these aged lines is costly and the City no longer has more than enough unrestricted net assets to cover the costs of replacing the lines.

Contacting the City of Swartz Creek Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Swartz Creek's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at 8083 Civic Drive, Swartz Creek, MI 48473.

BASIC FINANCIAL STATEMENTS

**GOVERNMENT-WIDE FINANCIAL
STATEMENTS**

CITY OF SWARTZ CREEK

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investment pool	\$ 3,039,070	\$ 3,210,590	\$ 6,249,660	\$ 112,341
Investments	-	-	-	264,153
Receivables	349,007	519,724	868,731	3,901
Inventory	-	28,241	28,241	-
Prepaid items	47,982	33,580	81,562	1,790
Capital assets, net:				
Assets not being depreciated	2,104,105	-	2,104,105	-
Assets being depreciated	3,230,217	4,413,077	7,643,294	19,093
Total assets	8,770,381	8,205,212	16,975,593	401,278
Liabilities				
Accounts payable and accrued expenses	143,135	160,908	304,043	68,518
Unearned revenue	-	-	-	9,519
Noncurrent liabilities:				
Due within one year	157,154	-	157,154	-
Due in more than one year	1,582,662	-	1,582,662	-
Total liabilities	1,882,951	160,908	2,043,859	78,037
Net Assets				
Invested in capital assets, net of related debt	3,692,295	4,413,077	8,105,372	19,093
Restricted for:				
Streets	972,249	-	972,249	-
Garbage collection	630,818	-	630,818	-
Public safety	3,214	-	3,214	-
Debt service	16,615	-	16,615	-
Capital projects	176,783	-	176,783	-
Unrestricted	1,395,456	3,631,227	5,026,683	304,148
Total net assets	\$ 6,887,430	\$ 8,044,304	\$ 14,931,734	\$ 323,241

The accompanying notes are an integral part of these financial statements.

CITY OF SWARTZ CREEK

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
Legislative	\$ 34,396	\$ -	\$ -	\$ -	\$ (34,396)
General government	544,584	148,066	898,375	59,137	560,994
Public safety	1,256,627	120,764	-	-	(1,135,863)
Public works	647,746	63,194	-	-	(584,552)
Recreation and culture	288,537	8,913	-	-	(279,624)
Interest on long-term debt	73,011	-	-	-	(73,011)
Total governmental activities	2,844,901	340,937	898,375	59,137	(1,546,452)
Business-type activities:					
Sewer	755,239	833,983	-	-	78,744
Water	954,435	1,020,496	-	-	66,061
Total business-type activities	1,709,674	1,854,479	-	-	144,805
Total primary government	<u>\$ 4,554,575</u>	<u>\$ 2,195,416</u>	<u>\$ 898,375</u>	<u>\$ 59,137</u>	<u>\$ (1,401,647)</u>
Component units:					
Downtown Development Authority	30,545	-	-	-	(30,545)
Senior Center	210,932	22,416	58,141	-	(130,375)
Total component units	<u>\$ 241,477</u>	<u>\$ 22,416</u>	<u>\$ 58,141</u>	<u>\$ -</u>	<u>\$ (160,920)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SWARTZ CREEK

**STATEMENT OF ACTIVITIES (Concluded)
FOR THE YEAR ENDED JUNE 30, 2007**

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Changes in net assets				
Net (expense) revenue	\$ (1,546,452)	\$ 144,805	\$ (1,401,647)	\$ (160,920)
General revenues:				
Property taxes	1,481,990	-	1,481,990	219,347
Grants and contributions not restricted to specific programs	-	-	-	4,266
Unrestricted investment earnings	219,772	158,377	378,149	12,897
Other revenue	209,150	-	209,150	-
Transfers	78,931	(78,931)	-	-
Total general revenues and transfers	1,989,843	79,446	2,069,289	236,510
Change in net assets	443,391	224,251	667,642	75,590
Net assets, beginning of year	6,444,039	7,820,053	14,264,092	247,651
Net assets, end of year	\$ 6,887,430	\$ 8,044,304	\$ 14,931,734	\$ 323,241

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**CITY OF SWARTZ CREEK
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

ASSETS	General	Major Streets	Local Streets	Garbage Collection	Other Governmental Funds	Total
Cash and investment pool	\$ 903,750	\$ 732,534	\$ 203,504	\$ 653,620	\$ 207,783	\$ 2,701,191
Accounts receivable	14,661	833	-	-	12,006	27,500
Taxes receivable	41,257	-	-	14,871	-	56,128
Due from other governmental units	145,786	42,201	12,392	-	-	200,379
Due from other funds	6,832	-	-	-	-	6,832
Due from component units	65,000	-	-	-	-	65,000
Prepaid expenditures	18,127	690	690	-	-	19,507
TOTAL ASSETS	\$ 1,195,413	\$ 776,258	\$ 216,586	\$ 668,491	\$ 219,789	\$ 3,076,537
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 28,038	\$ 18,399	\$ 551	\$ 20,353	\$ 51	\$ 67,392
Accrued liabilities	51,854	747	898	2,449	1,960	57,908
Due to other funds	-	-	-	-	6,832	6,832
Deferred revenue	41,257	-	-	14,871	-	56,128
TOTAL LIABILITIES	121,149	19,146	1,449	37,673	8,843	188,260
FUND BALANCES						
Reserved for:						
Prepaid expenditures	18,127	690	690	-	-	19,507
Unreserved:						
Designated for subsequent years' expenditures	66,373	475,818	21,010	170,229	-	733,430
Undesignated:						
General Fund	989,764	-	-	-	-	989,764
Special Revenue Funds	-	280,604	193,437	460,589	17,548	952,178
Debt Service Funds	-	-	-	-	16,615	16,615
Capital Projects Funds	-	-	-	-	176,783	176,783
TOTAL FUND BALANCES	1,074,264	757,112	215,137	630,818	210,946	2,888,277
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,195,413	\$ 776,258	\$ 216,586	\$ 668,491	\$ 219,789	\$ 3,076,537

The accompanying notes are an integral part of these financial statements.

CITY OF SWARTZ CREEK
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Fund balances - total governmental funds	\$ 2,888,277
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	6,663,956
Deduct - accumulated depreciation	(1,563,450)
Other long-term assets are not available to pay for current period expenditures and therefore are either deferred or otherwise not recorded in the funds	
Add - deferred revenue	56,128
Internal service funds are used by management to charge the costs of fleet management to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
Add - net assets of governmental activities accounted for in the internal service funds	595,320
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - long-term debt	(1,642,027)
Deduct - accrued interest on long-term debt	(12,985)
Deduct - compensated absences	(97,789)
Net assets of governmental activities	<u>\$ 6,887,430</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	General	Major Streets	Local Streets	Garbage Collection	Other Governmental Funds	Total
REVENUES						
Taxes	\$ 1,101,049	\$ -	\$ -	\$ 366,740	\$ 15,775	\$ 1,483,564
Licenses and permits	147,559	-	-	-	-	147,559
Intergovernmental revenue	475,679	321,714	75,468	-	-	872,861
Charges for services	217,737	-	-	-	-	217,737
Fines and forfeitures	53,283	-	-	-	-	53,283
Interest and rentals	104,760	41,194	9,478	38,446	10,941	204,819
Other revenue	132,275	8,902	15,758	2,474	56,750	216,159
TOTAL REVENUES	2,232,342	371,810	100,704	407,660	83,466	3,195,982
EXPENDITURES						
Current:						
Legislative	34,396	-	-	-	-	34,396
General government	481,452	-	-	-	-	481,452
Public safety	1,104,942	-	-	-	107,376	1,212,318
Public works	114,202	739,015	93,911	312,429	-	1,259,557
Recreation and culture	253,270	-	-	-	-	253,270
Debt service	-	-	-	-	144,818	144,818
Capital outlay	8,739	-	-	-	121,169	129,908
TOTAL EXPENDITURES	1,997,001	739,015	93,911	312,429	373,363	3,515,719
REVENUES OVER (UNDER) EXPENDITURES	235,341	(367,205)	6,793	95,231	(289,897)	(319,737)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	25,000	-	307,369	332,369
Transfers (out)	(210,828)	(25,000)	-	(17,610)	-	(253,438)
TOTAL OTHER FINANCING SOURCES (USES)	(210,828)	(25,000)	25,000	(17,610)	307,369	78,931
NET CHANGE IN FUND BALANCES	24,513	(392,205)	31,793	77,621	17,472	(240,806)
FUND BALANCES, BEGINNING OF YEAR	1,049,751	1,149,317	183,344	553,197	193,474	3,129,083
FUND BALANCES, END OF YEAR	\$ 1,074,264	\$ 757,112	\$ 215,137	\$ 630,818	\$ 210,946	\$ 2,888,277

The accompanying notes are an integral part of these financial statements.

CITY OF SWARTZ CREEK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds \$ (240,806)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,553,385
Deduct - depreciation expense	(97,480)

Certain revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenue in the funds, rather they are deferred to the following fiscal year.

Deduct - decrease in delinquent property taxes	(1,574)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds of bonds issued	(793,541)
Add - principal payments on long-term liabilities	76,677

Internal service funds are used by management to charge the costs of self insurance to individual governmental funds. The net revenue (expense) of the funds is reported with governmental activities.

Add - interest revenue from governmental internal service funds	14,953
Deduct - net operating loss from governmental activities in internal service funds	(34,758)

Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in compensated absences	(28,595)
Deduct - increase in accrued interest payable on bonds	(4,870)

Change in net assets of governmental activities	\$ 443,391
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The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,044,540	\$ 1,044,540	\$ 1,101,049	\$ 56,509
Licenses and permits	138,039	138,039	147,559	9,520
Intergovernmental revenue - federal	-	11,515	12,716	1,201
Intergovernmental revenue - state	468,408	468,408	452,394	(16,014)
Intergovernmental revenue - local	9,811	9,811	10,569	758
Charges for services	162,900	162,900	217,737	54,837
Fines and forfeitures	50,000	50,000	53,283	3,283
Interest and rentals	40,000	40,000	104,760	64,760
Other revenue	129,450	129,450	132,275	2,825
TOTAL REVENUES	2,043,148	2,054,663	2,232,342	177,679
EXPENDITURES				
Legislative	37,287	34,396	34,396	-
General government	484,846	481,302	481,452	(150)
Public safety	1,085,170	1,090,796	1,104,942	(14,146)
Public works	94,600	122,716	114,202	8,514
Recreation and culture	269,370	288,010	253,270	34,740
Capital outlay	27,050	9,702	8,739	963
TOTAL EXPENDITURES	1,998,323	2,026,922	1,997,001	29,921
REVENUES OVER (UNDER) EXPENDITURES	44,825	27,741	235,341	207,600
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(111,198)	(235,828)	(210,828)	25,000
NET CHANGE IN FUND BALANCES	(66,373)	(208,087)	24,513	232,600
FUND BALANCES, BEGINNING OF YEAR	1,049,751	1,049,751	1,049,751	-
FUND BALANCES, END OF YEAR	\$ 983,378	\$ 841,664	\$ 1,074,264	\$ 232,600

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
MAJOR STREETS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental:				
Gas and weight taxes	\$ 665,000	\$ 665,000	\$ 321,714	\$ (343,286)
Interest	12,000	12,000	41,194	29,194
Other revenue	2,500	30,494	8,902	(21,592)
TOTAL REVENUES	679,500	707,494	371,810	(335,684)
EXPENDITURES				
PUBLIC WORKS				
Highways and streets:				
Occupational safety	1,005	277	277	-
Construction	957,340	1,172,561	577,748	594,813
Routine maintenance - streets	88,943	114,552	101,589	12,963
Routine maintenance - bridges	1,700	1,700	-	1,700
Traffic services	26,465	26,465	18,973	7,492
Winter maintenance	42,040	38,891	24,454	14,437
Administration	12,825	15,974	15,974	-
TOTAL EXPENDITURES	1,130,318	1,370,420	739,015	631,405
REVENUES OVER (UNDER) EXPENDITURES	(450,818)	(662,926)	(367,205)	295,721
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(25,000)	(25,000)	(25,000)	-
NET CHANGE IN FUND BALANCE	(475,818)	(687,926)	(392,205)	295,721
FUND BALANCE, BEGINNING OF YEAR	1,149,317	1,149,317	1,149,317	-
FUND BALANCE, END OF YEAR	\$ 673,499	\$ 461,391	\$ 757,112	\$ 295,721

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
LOCAL STREETS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental:				
Gas and weight taxes	\$ 75,000	\$ 75,000	\$ 75,468	\$ 468
Interest	2,200	2,200	9,478	7,278
Other	10,500	10,500	15,758	5,258
TOTAL REVENUES	87,700	87,700	100,704	13,004
EXPENDITURES				
PUBLIC WORKS				
Highways and streets:				
Occupational safety	405	405	-	405
Construction	31,500	59,247	27,747	31,500
Routine maintenance - streets	38,241	38,241	24,366	13,875
Routine maintenance - bridges	1,200	1,200	-	1,200
Traffic services	6,331	6,331	2,592	3,739
Winter maintenance	42,452	39,403	23,243	16,160
Administration	13,581	16,630	15,963	667
TOTAL EXPENDITURES	133,710	161,457	93,911	67,546
REVENUES OVER (UNDER) EXPENDITURES	(46,010)	(73,757)	6,793	80,550
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	25,000	-
NET CHANGE IN FUND BALANCE	(21,010)	(48,757)	31,793	80,550
FUND BALANCE, BEGINNING OF YEAR	183,344	183,344	183,344	-
FUND BALANCE, END OF YEAR	\$ 162,334	\$ 134,587	\$ 215,137	\$ 80,550

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
GARBAGE COLLECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 371,495	\$ 371,495	\$ 366,740	\$ (4,755)
Interest	12,000	12,000	38,446	26,446
Other revenue	3,425	3,425	2,474	(951)
TOTAL REVENUES	386,920	386,920	407,660	20,740
EXPENDITURES				
PUBLIC WORKS				
Sanitation collection	303,558	469,308	270,920	198,388
Wood chipping	64,481	64,481	41,390	23,091
Capital outlay	171,500	11,500	119	11,381
TOTAL EXPENDITURES	539,539	545,289	312,429	232,860
REVENUES OVER (UNDER) EXPENDITURES	(152,619)	(158,369)	95,231	253,600
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(17,610)	(17,610)	(17,610)	-
NET CHANGE IN FUND BALANCE	(170,229)	(175,979)	77,621	253,600
FUND BALANCE, BEGINNING OF YEAR	553,197	553,197	553,197	-
FUND BALANCE, END OF YEAR	\$ 382,968	\$ 377,218	\$ 630,818	\$ 253,600

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007**

	Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service
ASSETS				
CURRENT ASSETS				
Cash and investment pool	\$ 1,974,333	\$ 1,236,257	\$ 3,210,590	\$ 337,879
Accounts receivable	294,901	224,823	519,724	-
Inventory	28,241	-	28,241	-
Prepaid items	15,417	18,163	33,580	28,475
TOTAL CURRENT ASSETS	2,312,892	1,479,243	3,792,135	366,354
CAPITAL ASSETS				
Building and system	4,673,441	3,128,584	7,802,025	-
Machinery and equipment	41,792	59,272	101,064	814,094
Less allowance for accumulated depreciation	(2,200,050)	(1,289,962)	(3,490,012)	(580,278)
NET CAPITAL ASSETS	2,515,183	1,897,894	4,413,077	233,816
TOTAL ASSETS	4,828,075	3,377,137	8,205,212	600,170
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	68,139	85,990	154,129	4,371
Accrued liabilities	3,476	3,303	6,779	479
TOTAL LIABILITIES	71,615	89,293	160,908	4,850
NET ASSETS				
Investment in capital assets	2,515,183	1,897,894	4,413,077	233,816
Unrestricted	2,241,277	1,389,950	3,631,227	361,504
TOTAL NET ASSETS	\$ 4,756,460	\$ 3,287,844	\$ 8,044,304	\$ 595,320

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service
OPERATING REVENUES				
Charges for services	\$ 991,514	\$ 810,319	\$ 1,801,833	\$ -
Penalties	21,712	15,944	37,656	-
Equipment rental	-	-	-	167,782
Miscellaneous	-	-	-	1,257
TOTAL OPERATING REVENUES	1,013,226	826,263	1,839,489	169,039
OPERATING EXPENSES				
Water operating	795,219	-	795,219	-
Meter reading and billing	81,279	51,219	132,498	-
Sewer operating	-	639,556	639,556	-
Sewer lift station operation	-	15,606	15,606	-
Motor pool operations	-	-	-	139,397
Depreciation	77,937	48,771	126,708	64,400
TOTAL OPERATING EXPENSES	954,435	755,152	1,709,587	203,797
OPERATING INCOME (LOSS)	58,791	71,111	129,902	(34,758)
NONOPERATING REVENUES (EXPENSES)				
Interest revenues	94,602	63,775	158,377	14,953
Tap fees	7,270	7,720	14,990	-
Interest expense	-	(87)	(87)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	101,872	71,408	173,280	14,953
INCOME (LOSS) BEFORE TRANSFERS	160,663	142,519	303,182	(19,805)
TRANSFERS				
Transfers (out)	(17,610)	(61,321)	(78,931)	-
CHANGE IN NET ASSETS	143,053	81,198	224,251	(19,805)
NET ASSETS, BEGINNING OF YEAR	4,613,407	3,206,646	7,820,053	615,125
NET ASSETS, END OF YEAR	\$ 4,756,460	\$ 3,287,844	\$ 8,044,304	\$ 595,320

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

	Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,018,567	\$ 831,825	\$ 1,850,392	\$ -
Receipts from interfund services provided	-	-	-	184,649
Payments to employees	(178,114)	(147,864)	(325,978)	(34,340)
Payments to suppliers	(697,211)	(577,855)	(1,275,066)	(107,272)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	143,242	106,106	249,348	43,037
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers (out)	(17,610)	(61,321)	(78,931)	-
Tap fees	7,270	7,720	14,990	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(10,340)	(53,601)	(63,941)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchases of capital assets	-	(83,269)	(83,269)	(45,813)
Interest paid on debt	-	(87)	(87)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(83,356)	(83,356)	(45,813)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	94,602	63,775	158,377	14,953
NET INCREASE IN CASH AND CASH EQUIVALENTS	227,504	32,924	260,428	12,177
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,746,829	1,203,333	2,950,162	325,702
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,974,333	\$ 1,236,257	\$ 3,210,590	\$ 337,879

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

	Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 58,791	\$ 71,111	\$ 129,902	\$ (34,758)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	77,937	48,771	126,708	64,400
Changes in assets and liabilities:				
Accounts receivable	5,341	5,562	10,903	15,610
Inventory	1,231	-	1,231	-
Prepaid items	(1,791)	(6,051)	(7,842)	292
Accounts payable	6,116	(4,369)	1,747	(1,655)
Accrued liabilities	(4,383)	(8,918)	(13,301)	(852)
Net cash provided (used) by operating activities	\$ 143,242	\$ 106,106	\$ 249,348	\$ 43,037

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
FIDUCIARY FUNDS
STATEMENT OF ASSETS AND LIABILITIES
JUNE 30, 2007**

<u>ASSETS</u>	<u>AGENCY FUNDS</u>
Cash and cash equivalents	\$ 60,419
Other assets	<u>384,391</u>
<u>TOTAL ASSETS</u>	<u>\$ 444,810</u>
Due to other governmental units	\$ 408,189
Deposits payable	<u>36,621</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 444,810</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SWARTZ CREEK
COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2007

	Downtown Development Authority	Senior Citizens Authority	Total
ASSETS			
Cash and cash equivalents	\$ 38,690	\$ 73,651	\$ 112,341
Investments	-	264,153	264,153
Accounts receivable	-	3,901	3,901
Prepaid items	-	1,790	1,790
Capital assets, net:			
Assets being depreciated	-	19,093	19,093
TOTAL ASSETS	38,690	362,588	401,278
LIABILITIES			
Accounts payable	1,147	1,002	2,149
Due to other governmental units	65,000	-	65,000
Accrued liabilities	-	1,369	1,369
Unearned revenue	-	9,519	9,519
TOTAL LIABILITIES	66,147	11,890	78,037
NET ASSETS			
Investment in capital assets	-	19,093	19,093
Unrestricted (deficit)	(27,457)	331,605	304,148
TOTAL NET ASSETS	\$ (27,457)	\$ 350,698	\$ 323,241

The accompanying notes are an integral part of these financial statements.

**CITY OF SWARTZ CREEK
COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Functions / Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenues</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Component unit					
Downtown Development Authority					
Governmental Activities:					
Operations	\$ 30,545	\$ -	\$ -	\$ -	\$ (30,545)
Senior Citizens Authority					
Governmental Activities:					
Operations	210,932	22,416	58,141	-	(130,375)
Total component units	<u>\$ 241,477</u>	<u>\$ 22,416</u>	<u>\$ 58,141</u>	<u>\$ -</u>	<u>\$ (160,920)</u>

**CITY OF SWARTZ CREEK
COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	Downtown Development Authority	Senior Citizens Authority	Total
Change in net assets			
Net (expense) revenue	\$ (30,545)	\$ (130,375)	\$ (160,920)
General revenues:			
Property taxes	17,865	201,482	219,347
Unrestricted grants and contributions	-	4,266	4,266
Unrestricted investment earnings	1,070	11,827	12,897
 Total general revenues	 18,935	 217,575	 236,510
 Change in net assets	 (11,610)	 87,200	 75,590
 Net assets (deficit), beginning of year	 (15,847)	 263,498	 247,651
 Net assets (deficit), end of year	 <u><u>\$ (27,457)</u></u>	 <u><u>\$ 350,698</u></u>	 <u><u>\$ 323,241</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Swartz Creek (City) was incorporated in 1959, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire inspections), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Unit

For financial reporting purposes, City of Swartz Creek Building Authority has been reported as if it were a part of this City's operations because:

- City pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

Discretely Presented Component Units

The component unit column in the government-wide financial statements presents the financial data of the Swartz Creek Area Senior Citizens, Inc. (Senior Citizens Authority). The Swartz Creek Area Senior Citizens, Inc. is a legally separate nonprofit organization with the majority of the Board of Directors elected by the general membership. However, the majority of the revenue of the organization is collected from a tax levy by the City of Swartz Creek and the building and utilities are furnished by the City. As a result, the Swartz Creek Area Senior Citizens, Inc. is considered fiscally dependent on the City.

The financial statements of the Swartz Creek Area Senior Citizens, Inc. are audited separately and may be obtained at the following address: 8095 Civic Drive, Swartz Creek, Michigan 48473.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

The City has established the Swartz Creek Downtown Development Authority (Authority), in accordance with State law to promote and rehabilitate the downtown area. The Authority was formed to construct certain improvements in the downtown area. State law provides for a specific tax levy for the operations of the Authority. The City appoints the Board and has to approve the annual budget and the issuance of any debt. Any surplus funds remaining at the termination of the Authority vest to the City.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (e.g., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component* units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Major and Local Streets Funds* account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction.

The *Garbage Collection Fund* accounts for a special property tax millage allowed to provide garbage and compost collection services.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the operations of the water distribution system.

The *Sewer Fund* accounts for the operations of the sewage pumping and collection system.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

Additionally, the City reports the following fund types:

Internal Service Fund - Services provided to other departments of the government on a cost reimbursement basis. The City has a motor pool internal service fund.

Agency Funds accounts for assets held by the City as an agent for individuals, private organizations, and other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the *City*. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenue* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenue* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City has classified all checking/sweep accounts as cash and cash equivalents.

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or more when purchased to be investments. Investments are reported on the statement of net assets at fair value.

2. RECEIVABLES AND PAYABLES

In general, outstanding balances between funds are reported as “due to/from other funds,” activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

3. INVENTORIES AND PREPAID ITEMS

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventory consists of expendable supplies for consumption.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets in the fiscal year ended June 30, 2004, were capitalized and are reported

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively, beginning with the year ended June 30, 2004. The City is not required to retroactively determine costs and accumulated depreciation for infrastructure assets acquired prior to July 1, 2003, and record those assets on the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Buildings	50
Land improvements	20
Water and sewer systems	50-75
Machinery and equipment	3-20
Roads	25

5. COMPENSATED ABSENCES

In accordance with contracts negotiated with the various employee groups of the City of Swartz Creek, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vacation pay is accrued annually in the government-wide and proprietary fund financial statements.

6. LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

7. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. REVENUES, EXPENDITURES, AND EXPENSES

Property tax

The City's property tax is levied each July 1 on the taxable value determined as of December 31 of the preceding year for all taxable real and personal property located in the City. On July 1, the property tax attachment is an enforceable lien on the property.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY BUDGETARY INFORMATION

A. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures, and the means of financing them, for the General and Special Revenue Funds.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget was legally enacted on a total fund basis for the 2006 fiscal year, through passage of a resolution in accordance with Public Act 621 of 1978 of the State of Michigan. All budgets are enacted in accordance with generally accepted accounting principles (GAAP).
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
5. Budget appropriations lapse at year-end, except for certain Major Streets Fund construction activity budgeted on a project length basis.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

6. The original budget was amended during the year in compliance with the City Charter and applicable state law. The budget to actual expenditures in the financial statements represents the final budgeted expenditures as amended by the City.
7. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended June 30, 2007, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated at the function level as follows:

Fund	Appropriation	Expenditure	Excess Expenditure
<i>General Fund:</i>			
General government	\$ 481,302	\$ 481,452	\$ (150)
Public safety	1,090,796	1,104,942	(14,146)

The above items represent violations of the City's budgeting policies. Revenues were sufficient to cover all expenditures.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

A reconciliation of cash, pooled investments and investments as shown in the basic financial statement for the City's deposits and investments is as follows:

	<u>Carrying Amount</u>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and investment pool	\$ 6,249,660
Component Units:	
Cash and investment pool	112,341
Investments	264,153
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>60,419</u>
 Total	 <u>\$ 6,686,573</u>
 Notes to Financial Statements:	
Deposits	\$ 698,331
Investments	5,987,166
Cash on hand	<u>1,076</u>
 Total	 <u>\$ 6,686,573</u>

Statutory Authority

The City is authorized by the State to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Deposits and investments

The City chooses to disclose its investments by specifically identifying each. As of June 30, 2007, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
MBIA Michigan CLASS pool	n/a	\$ 1,623,023	AAA / V1+
Chase Money Market Sweep	n/a	<u>4,364,143</u>	n/a
Total		<u>\$ 5,987,166</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City's investment in the MBIA Michigan CLASS pool is rated AAA / V1+ by Fitch. The City's investment in the Chase Money Market Sweep is not rated.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end none of the City's bank balance of \$881,987 was exposed to custodial credit risk.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. The City's investment is in the MBIA Michigan CLASS pool, not the securities that make up the pool. The City's investment in the Chase Money Market Sweep is uncategorized as to credit risk. Therefore, there is no custodial credit risk to be disclosed.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. Pooled investments and money market sweep accounts are excluded from the 5% disclosure requirement.

B. RECEIVABLES

Receivables in the primary government and component units are as follows:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Component <u>Units</u>
Taxes/special assessments	\$ 56,128	\$ -	\$ -
Accounts	25,494	515,832	-
Interest	2,006	3,892	-
Intergovernmental	<u>265,379</u>	<u>-</u>	<u>3,901</u>
Total	<u>\$ 349,007</u>	<u>\$ 519,724</u>	<u>\$ 3,901</u>

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,466,268	\$ 121,169	\$ -	\$ 1,587,437
Construction in progress	<u>25,616</u>	<u>491,052</u>	<u>-</u>	<u>516,668</u>
Total, capital assets not being depreciated	<u>1,491,884</u>	<u>612,221</u>	<u>-</u>	<u>2,104,105</u>
Capital assets, being depreciated:				
Buildings	2,263,175	-	-	2,263,175
Land improvements	534,023	-	-	534,023
Machinery and equipment	1,489,307	53,553	-	1,542,860
Infrastructure	<u>100,463</u>	<u>933,424</u>	<u>-</u>	<u>1,033,887</u>
Total, capital assets being depreciated	<u>4,386,968</u>	<u>986,977</u>	<u>-</u>	<u>5,373,945</u>
Less accumulated depreciation:				
Buildings	(719,292)	(45,184)	-	(764,476)
Land improvements	(323,908)	(11,433)	-	(335,341)
Machinery and equipment	(934,630)	(101,244)	-	(1,035,874)
Infrastructure	<u>(4,018)</u>	<u>(4,019)</u>	<u>-</u>	<u>(8,037)</u>
Total accumulated depreciation	<u>(1,981,848)</u>	<u>(161,880)</u>	<u>-</u>	<u>(2,143,728)</u>
Total capital assets being depreciated, net	<u>2,405,120</u>	<u>825,097</u>	<u>-</u>	<u>3,230,217</u>
Total capital assets, net	<u>\$ 3,897,004</u>	<u>\$1,437,318</u>	<u>\$ -</u>	<u>\$ 5,334,322</u>

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 101,066	\$ -	\$ -	\$ 101,066
Water and sewer systems	<u>7,718,754</u>	<u>83,269</u>	<u>-</u>	<u>7,802,023</u>
 Total, capital assets being depreciated	 <u>7,819,820</u>	 <u>83,269</u>	 <u>-</u>	 <u>7,903,089</u>
 Less accumulated depreciation:				
Machinery and equipment	(68,670)	(6,874)	-	(75,544)
Water and sewer systems	<u>(3,294,633)</u>	<u>(119,835)</u>	<u>-</u>	<u>(3,414,468)</u>
 Total accumulated depreciation	 <u>(3,363,303)</u>	 <u>(126,709)</u>	 <u>-</u>	 <u>(3,490,012)</u>
 Total capital assets being depreciated, net	 <u>4,456,517</u>	 <u>(43,440)</u>	 <u>-</u>	 <u>4,413,077</u>
 Business-type activities capital assets, net	 <u>\$ 4,456,517</u>	 <u>\$ (43,440)</u>	 <u>\$ -</u>	 <u>\$ 4,413,077</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 46,664
Public safety	45,136
Public works	32,709
Recreation and cultural	<u>37,371</u>
 Total depreciation expense — governmental activities	 <u>\$ 161,880</u>
 Business-type activities:	
Water	\$ 77,937
Sewer	<u>48,771</u>
 Total depreciation expense — business-type activities	 <u>\$ 126,708</u>

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Component units:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 5,161	\$ -	\$ -	\$ 5,161
Office furniture and equipment	<u>35,605</u>	<u>4,189</u>	<u>-</u>	<u>39,794</u>
 Total, capital assets being depreciated	 <u>40,766</u>	 <u>4,189</u>	 <u>-</u>	 <u>44,955</u>
 Less accumulated depreciation:				
Leasehold improvements	(5,161)	-	-	(5,161)
Office furniture and equipment	<u>(13,784)</u>	<u>(6,917)</u>	<u>-</u>	<u>(20,701)</u>
 Total accumulated depreciation	 <u>(18,945)</u>	 <u>(6,917)</u>	 <u>-</u>	 <u>(25,862)</u>
 Total capital assets being depreciated, net	 <u>21,821</u>	 <u>(2,728)</u>	 <u>-</u>	 <u>19,093</u>
 Component units capital assets, net	 <u>\$ 21,821</u>	 <u>\$ (2,728)</u>	 <u>\$ -</u>	 <u>\$ 19,093</u>

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007, is as follows:

	<u>Due From</u> Nonmajor Governmental	
<u>Due To</u>	Funds	Total
General Fund	<u>\$ 6,832</u>	<u>\$ 6,832</u>

The interfund receivable and payable for the City consist of an amount due to the General fund to eliminate a negative cash balance in the Drug Enforcement nonmajor governmental fund.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

The composition of interfund transfers as of June 30, 2007, is as follows:

	Transfer In	
	<u>Nonmajor Governmental</u>	<u>Local Street</u>
Transfer out:		
General fund	\$ 210,828	\$ -
Major Streets	-	25,000
Garbage Collection	17,610	-
Water fund	61,321	-
Sewer fund	<u>17,610</u>	<u>-</u>
Total transfers out	<u>\$ 307,369</u>	<u>\$ 25,000</u>

Transfers were made from the general, garbage collection, water and sewer funds to fund debt service requirements for the construction of City Hall. Transfers were made from the general, water and sewer funds to capital projects funds to construct and acquire capital assets. Transfers were made from the major streets fund to subsidize operations of the local streets fund.

E. PAYABLES

Accounts payable and accrued liabilities in the primary government and component units are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts	\$ 108,730	\$ 156,850	\$ 2,149
Wages	21,420	4,058	1,369
Interest	12,985	-	-
Intergovernmental	<u>-</u>	<u>-</u>	<u>65,000</u>
Total	<u>\$ 143,135</u>	<u>\$ 160,908</u>	<u>\$ 68,518</u>

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

F. LONG-TERM DEBT

A summary of long-term liability transactions for the year ended June 30, 2007, and the composition of the June 30, 2007, long-term debt balance follows:

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Original Amount of Issue</u>	<u>Balance at June 30, 2006</u>	<u>Issuances (Retire- ments) During Year</u>	<u>Balance at June 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities:							
Building Authority Bonds:							
Series 2001	5/20/21	4.25-5.65%	\$995,000	\$870,000	\$ (25,000)	\$ 845,000	\$ 25,000
1998 Genesee County Water Supply System Refunding Bonds							
	4/2008	4.45-4.50%	\$283,615	55,163	(27,860)	27,303	27,303
2006 Genesee County Sewer Extension Bonds (G.O.)							
	11/01/26	4.00-4.35%	\$793,541	-	793,541 (23,817)	769,724	24,900
Accumulated vacation and sick pay				<u>69,194</u>	<u>99,602 (71,007)</u>	<u>97,789</u>	<u>79,951</u>
Total				<u>\$994,357</u>	<u>\$ 745,459</u>	<u>\$1,739,816</u>	<u>\$ 157,154</u>

Annual debt service requirements to maturity for the above bond obligations are as follows:

<u>Year End June 30,</u>	<u>Governmental Activities</u>	
	<u>Principle</u>	<u>Interest</u>
2008	\$ 77,203	\$ 77,295
2009	75,982	73,883
2010	77,065	72,468
2011	79,230	67,011
2012	80,313	63,442
2013-2017	476,462	258,690
2018-2022	547,345	124,990
2023-2027	<u>228,427</u>	<u>25,367</u>
Total	<u>\$ 1,642,027</u>	<u>\$ 763,146</u>

Accumulated vacation and sick pay are generally liquidated by the general fund.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

Building Authority Bonds:

The City of Swartz Creek is party to a long-term lease agreement for rental of a building and parking structure with the City of Swartz Creek Building Authority (Building Authority). The Building Authority was created pursuant to the provisions of Public Act 31 for the purpose of financing and constructing City facilities.

The lease stipulates that fixed annual rentals will be paid to the Authority and such rentals are pledged exclusively for payment of principal and interest on revenue bonds issued by the Authority to finance the various projects. The lease agreement also provides that after all revenue bonds are retired, the fixed annual rentals will cease, and title to all buildings and structures shall vest in the City of Swartz Creek.

The City's full faith and credit is pledged for the payment of these rentals (subject to constitutional limitations). The lease agreement is essentially a financing vehicle for the City of Swartz Creek to purchase buildings and structures. Under provisions of generally accepted accounting principles for these types of leases, the assets and related liabilities encompassed by the lease are included in the statement of net assets of the lessee (City of Swartz Creek) as if these assets were purchased and financed by the lessee. These assets and liabilities are normally measured by the lesser of fair market value of the property at the inception of lease or present value of the minimum lease payments (discounted at the lessee's incremental borrowing rate) at the beginning of the lease term. Since the minimum lease payments are the payments required to retire the debt, the assets are shown at fair market value at the inception of the lease (cost) and the related lease liabilities are the outstanding revenue bonds related to the leased assets. The capital assets owned by the Authority and included in the City's financial statements in the statement of net assets at June 30, 2007, have an accumulated cost of \$788,137.

The Building Authority bonds are due in annual installments of \$25,000 to \$95,000 through May 20, 2021. Interest is paid semi-annually at rates ranging from 4.25% to 5.65%. The outstanding balance payable at June 30, 2007, is \$845,000.

G. PROPERTY TAXES

Property taxes are levied based on assessed values of property located in the City. Assessed values are established annually and equalized by the state at an estimated 50% of current market value. A comparison of assessed and taxable property values for the 2006 tax levy is as follows:

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

	Assessed Value	Taxable Value
Real property	\$ 226,505,475	\$ 190,087,387
Personal property	<u>21,837,060</u>	<u>21,837,060</u>
Total	<u>\$ 248,342,535</u>	<u>\$ 211,924,447</u>

The City is permitted by charter to levy up to \$5.00 (5 mills) per \$1,000 of state taxable value for general governmental services. For the year ended June 30, 2007, the City levied \$4.8289 for general governmental services and \$1.75 for garbage per \$1,000 of state taxable valuation. The City is permitted to levy unlimited amounts for payment of existing general long-term debt obligations. As of June 30, 2007, \$.0075 (.0075 mill) per \$1,000 of state taxable valuation was being levied for long-term debt retirement. A levy of .4975 mills is levied on the behalf of the Senior Center of which the City is financially accountable.

IV. OTHER INFORMATION

A. RISK MANAGEMENT AND CONTINGENT LIABILITIES

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The City participates in a public entity risk pool that assumes the risk of loss for these claims. Settled claims for the insurance provided by the Pool have not exceeded the amount of pool coverage in any of the past three fiscal years. As a participant in the pool, the City has the responsibility to promptly pay all annual premiums, promptly report all incidents, follow all loss reduction and prevention procedures established by the Pool, provide the City's annual budget and audited financial statements, and cooperate fully with the Pool and its attorneys in the investigation, litigation, and settlement of liability claims. The City obtains fleet insurance, employee dishonesty, property, and general tort coverage through the Pool. The City carries \$5,000,000 of liability coverage with a \$1,000 per claim deductible on property, computer equipment, and mechanical systems.

The City participates in the Michigan Municipal Workers' Compensation Self-Insurer's Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

The City participates in the federally assisted Community Development Block Grant Program and COPS Programs. These programs are subject to monitoring by the granting agency. The granting agency has yet to make final approval of the expenditures charged to the grant. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

B. FEDERAL AWARDS

It is required by the Michigan Department of Transportation (MDOT) that governmental units report total federal awards for highway research, planning and construction pertaining to their unit. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act. The reason for this requirement is that the City is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended June 30, 2007, the City of Swartz Creek did not have \$500,000 of federal awards (local force revenue) applicable to force account expenditures. As a result, an audit in compliance with OMB Circular A-133 and the Single Audit Act was not required.

C. JOINT VENTURE AGREEMENT

The Swartz Creek Area Fire Board (Fire Board) has been organized as a joint venture of the City of Swartz Creek and the Township of Clayton (Township). The organizational agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Fire Board are appointed by the City and Township. The participating units provide revenue to the Fire Board on the basis of fire runs and general contributions. The City and Township have provided the Fire Board with the use of several vehicles and real property. Title to these vehicles remains with the contributing unit of Government.

During the year ended June 30, 2007, the City was billed \$38,549 by the Authority. At year-end, the City owed \$3,388 to the Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at the Fire Board headquarters.

D. POSTRETIREMENT BENEFITS

The City provides healthcare coverage for retired employees with twenty-five (25) years of service in the MERS retirement plan. The expenditures for the postretirement health care benefits are funded on a pay-as-you-go basis. At June 30, 2007, the City had six retired employees receiving benefits. The cost of the benefits provided during the year ended June 30, 2007, was \$26,883.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

E. DEFINED BENEFIT PENSION PLAN - MERS

The City of Swartz Creek participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. All employees hired prior to July 1, 1997, and all police officers are eligible to participate in the plan. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy — City employees are required to contribute to the plan at the following rates: general employees — 2.00%, police — 10.33%, and supervisors — 4%. The City is required to contribute at an actuarially determined rate, which is revised annually. The City's contribution rate for police during the year ended June 30, 2007, was 10.33% of annual covered payroll. The City's contribution rate for general employees and supervisors is a fixed annual dollar contribution amount. During the year ended June 30, 2007, those contribution amounts were general employees — \$31,296 and supervisors — \$95,052. Employer contributions fund a specific pension benefit for the employees of the City. The plan is closed to new employee units. The contribution requirements of plan members and the City are established and may be amended by the MERS Board of Trustees.

Annual Pension Cost - For the fiscal year ended June 30, 2007, the City's annual pension cost of \$161,405 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age normal cost method. Significant actuarial assumptions as of the date of the most recently completed actuarial valuation on December 31, 2006, included (1) a rate of return on the investments of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority\merit. The actuarial value of the City's assets was determined using techniques that prospectively smooth the effects of short term volatility in the market value of investments over a 10 year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll contributions, using a prospective gradual reduction of the amortization period for open divisions from 30 years to 25 years.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information for The City of Swartz Creek

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 77,439	100%	\$ -
June 30, 2006	121,082	100	-
June 30, 2007	161,405	100	-

Analysis of Retirement System Funding Progress

<u>Actuarial Valuation Date*</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Actuarial Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c)</u>
12/31/04	\$ 6,653,737	\$ 7,570,708	\$ 916,971	88%	\$ 813,191	113%
12/31/05	6,813,379	7,576,107	762,728	90	799,468	95
12/31/06	7,146,449	8,013,556	867,107	89	747,506	116

*Most recent valuation completed as of opinion date.

F. DEFINED CONTRIBUTION PENSION PLAN

The City has adopted by ordinance, a defined contribution money purchase pension plan administered by MERS and the ICMA Retirement Corporation. The plan is for all full time supervisors and employees represented by AFSCME hired after July 1, 1997. Employees hired prior to that date that do not participate in the defined benefit plan (MERS) may also participate in the defined contribution plan. The employee must be 18 years of age to participate in the plan.

The plan requires employer contributions of 6% of supervisors' wages and 5% of AFSCME employee's annual compensation. No employee contributions are required, but voluntary contributions can be made by the participants in accordance with IRS regulations. Participants vest in the employer contribution at the rate of 20% for each year of employment, becoming fully vested after five years. Contribution requirements and plan provisions are established and may be amended by the City Council.

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS

During the year ended June 30, 2007, the City contributed \$18,605 to the plan. Employee voluntary contributions were \$10,745. Payroll costs of all employees and plan participants amounted to \$1,328,656 and \$330,078, respectively. It is the policy of the City to pay the pension costs as incurred.

G. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries. As a result the assets are not reported by the City.

H. CONSTRUCTION CODE REVENUES/EXPENDITURES

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The activity related to construction code activity for the year ended June 30, 2007, is as follows:

Construction permit revenue	\$ 21,463
Less expenditures:	<u>63,903</u>
Expenditures over revenue	<u>\$ 42,440</u>

SUPPLEMENTARY INFORMATION

**CITY OF SWARTZ CREEK
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

		<u>SPECIAL REVENUE FUNDS</u>	
		<u>Drug Enforcement</u>	<u>Special Assessments</u>
ASSETS			
Cash and investment pool		\$ -	\$ 14,385
Accounts receivable		12,006	-
		<hr/>	
TOTAL ASSETS		\$ 12,006	\$ 14,385
		<hr/>	
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable		\$ -	\$ 51
Accrued liabilities		1,960	-
Due to other funds		6,832	-
		<hr/>	
TOTAL LIABILITIES		8,792	51
FUND BALANCES			
Unreserved, undesignated		3,214	14,334
		<hr/>	
TOTAL LIABILITIES AND FUND BALANCES		\$ 12,006	\$ 14,385
		<hr/>	

DEBT SERVICE FUNDS				CAPITAL PROJECTS FUNDS			
City Hall	Sewer G.O. Bonds Series 2006	Water Transmission Debt	Capital Projects	Fire Capital Projects	Total		
\$ 15,493	\$ -	\$ 1,122	\$ 38,032	\$ 138,751	\$ 207,783		
-	-	-	-	-	12,006		
\$ 15,493	\$ -	\$ 1,122	\$ 38,032	\$ 138,751	\$ 219,789		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51		
-	-	-	-	-	1,960		
-	-	-	-	-	6,832		
-	-	-	-	-	8,843		
15,493	-	1,122	38,032	138,751	210,946		
\$ 15,493	\$ -	\$ 1,122	\$ 38,032	\$ 138,751	\$ 219,789		

**CITY OF SWARTZ CREEK
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>SPECIAL REVENUE FUNDS</u>	
	Drug Enforcement	Special Assessments
REVENUES		
Taxes	\$ -	\$ -
Interest	438	-
Other revenue	56,234	249
TOTAL REVENUES	56,672	249
EXPENDITURES		
Public safety	105,636	1,740
Capital outlay	-	-
Debt service		
Principal	-	-
Interest and fees	-	-
TOTAL EXPENDITURES	105,636	1,740
REVENUES OVER (UNDER) EXPENDITURES	(48,964)	(1,491)
OTHER FINANCING SOURCES (USES)		
Transfers in	48,588	-
NET CHANGE IN FUND BALANCE	(376)	(1,491)
FUND BALANCES, BEGINNING OF YEAR	3,590	15,825
FUND BALANCES, END OF YEAR	\$ 3,214	\$ 14,334

DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS			
City Hall	Sewer G.O. Bonds Series 2006	Water Transmission Debt	Capital Projects	Fire Capital Projects	Total	
\$ -	\$ -	\$ 15,775	\$ -	\$ -	\$ 15,775	
2,116	-	395	1,636	6,356	10,941	
-	-	267	-	-	56,750	
2,116	-	16,437	1,636	6,356	83,466	
-	-	-	-	-	107,376	
-	-	-	121,169	-	121,169	
25,000	23,817	27,860	-	-	76,677	
45,718	19,894	2,529	-	-	68,141	
70,718	43,711	30,389	121,169	-	373,363	
(68,602)	(43,711)	(13,952)	(119,533)	6,356	(289,897)	
70,440	43,711	-	124,630	20,000	307,369	
1,838	-	(13,952)	5,097	26,356	17,472	
13,655	-	15,074	32,935	112,395	193,474	
\$ 15,493	\$ -	\$ 1,122	\$ 38,032	\$ 138,751	\$ 210,946	

CITY OF SWARTZ CREEK

**AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

JUNE 30, 2007

<u>ASSETS</u>	Trust & Agency	Current Tax Collection	Winter Tax	Tax In Lieu of Mari-Dan	Delinquent Personal Property Tax	Total
Cash and cash equivalents	\$ 36,621	\$ -	\$ 1,293	\$ 22,505	\$ -	\$ 60,419
Delinquent taxes receivable	-	-	-	-	384,391	384,391
TOTAL ASSETS	\$ 36,621	\$ -	\$ 1,293	\$ 22,505	\$ 384,391	\$ 444,810
<u>LIABILITIES</u>						
Due to other governmental units	\$ -	\$ -	\$ 1,293	\$ 22,505	\$ 384,391	\$ 408,189
Deposits payable	36,621	-	-	-	-	36,621
TOTAL LIABILITIES	\$ 36,621	\$ -	\$ 1,293	\$ 22,505	\$ 384,391	\$ 444,810

CITY OF SWARTZ CREEK
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT
STATEMENT OF NET ASSETS AND BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2007

	Downtown Development Authority	Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 38,690	\$ -	\$ 38,690
Accounts receivable	-	-	-
TOTAL ASSETS	<u>\$ 38,690</u>	-	<u>38,690</u>
LIABILITIES			
Accounts payable	\$ 1,147	\$ -	\$ 1,147
Due to primary government	65,000	-	65,000
TOTAL LIABILITIES	<u>66,147</u>	-	<u>66,147</u>
FUND BALANCES			
Reserved for debt service	(27,457)	27,457	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 38,690</u>		
NET ASSETS			
Unrestricted (deficit)		<u>\$ (27,457)</u>	<u>\$ (27,457)</u>

CITY OF SWARTZ CREEK
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT
STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Downtown Development Authority	Adjustments	Statement of Activities
REVENUES			
Taxes	\$ 17,865	\$ -	\$ 17,865
Interest	1,070	-	1,070
TOTAL REVENUES	18,935	-	18,935
EXPENDITURES/EXPENSES			
Public works	30,545	-	30,545
NET CHANGE IN FUND BALANCE / NET ASSETS	(11,610)	-	(11,610)
FUND BALANCE / NET ASSETS (DEFICIT), BEGINNING OF YEAR	(15,847)	-	(15,847)
FUND BALANCE / NET ASSETS (DEFICIT), END OF YEAR	\$ (27,457)	\$ -	\$ (27,457)



**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

November 30, 2007

Honorable Mayor and Members
of the City Council
City of Swartz Creek
Swartz Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Swartz Creek, Michigan*, as of and for the year ended June 30, 2007, which collectively comprise the *City of Swartz Creek, Michigan's* basic financial statements, and have issued our report thereon dated November 30, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Swartz Creek Area Senior Citizen's, Inc. as described in our report on *City of Swartz Creek, Michigan's* financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Swartz Creek, Michigan's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *City of Swartz Creek, Michigan's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *City of Swartz Creek, Michigan's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *City of Swartz Creek, Michigan's* ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *City of Swartz Creek, Michigan's* financial statements that is more than inconsequential will not be prevented or detected by the *City of Swartz Creek, Michigan's* internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2007-1

Recording, Processing and Summarizing Accounting Data

Criteria:	All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).
Condition:	As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the City has placed reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the City's <i>internal</i> controls.
Cause:	This condition was caused by the City's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.
Effect:	As a result of this condition, the City lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The City has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of accounting data, and determined that it is in the best interests of the City to rely on its external auditors to recommend the necessary adjustments.

2007-2

Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.
Cause:	This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.
Effect:	As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *City of Swartz Creek, Michigan's* internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *City of Swartz Creek, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of *City of Swartz Creek, Michigan*, in a separate letter dated November 30, 2007.

We did not audit *City of Swartz Creek, Michigan's* responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 30, 2007

To the Honorable Mayor and Members
of the City Council
City of Swartz Creek
Swartz Creek, Michigan

We have audited the financial statements of the City of Swartz Creek for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 10, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Swartz Creek. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Swartz Creek are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Swartz Creek during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Swartz Creek's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, certain adjustments we proposed to correct account balances, whether recorded or unrecorded by the City of Swartz Creek, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Swartz Creek's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Swartz Creek's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

City of Swartz Creek

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the City of Swartz Creek, Michigan as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Swartz Creek, Michigan's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 30, 2007, contains our report on significant deficiencies in the Entity's internal control. This letter does not affect our report dated November 30, 2007, on the financial statements of the City of Swartz Creek, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Other Matters

1) Reconciling Account Balances in Agency Funds to Supportive Documentation

A strong system of internal control dictates that all general ledger account balances are properly reconciled to and supported with a subsidiary ledger or other adequate supportive documentation. At June 30, 2007, several general ledger account balances in the City's Agency Funds were not reconciled to subsidiary ledgers or other adequate supportive documentation.

Recommendation:

We recommend that the City implement whatever procedures are necessary to ensure that all general ledger account balances are properly reconciled to their respective subsidiary ledger or other adequate supportive documentation in a timely manner.

2) Utility Billing Errors

Results of our procedures related to the City's accounts receivable for utility billings identified many errors in the individual account balances at year end. Many of the errors appear to have resulted from the City having experienced turn-over in the position for the Utility Billing Clerk.

Recommendation:

The City should consider improving its procedures for cross-training critical tasks and /or developing a comprehensive procedures manual to avoid similar situations when future turnover is experienced.

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